

BOARD OF WATER COMMISSIONERS
CITY AND COUNTY OF DENVER, COLORADO
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 1997 and 1996

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Water Commissioners ("Board") was created under the Charter of the City and County of Denver, Colorado ("City") as an independent, nonpolitical board. The Board has complete charge and control of a water works system and plant which supplies water to customers located within the City and to entities serving other customers located in certain outlying areas in the Denver metropolitan area.

The Board has a five-member governing body, which is appointed by the Mayor of the City for overlapping six-year terms. In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, "The Financial Reporting Entity," the Board would be classified as 1) an "other stand-alone government" since the Board is a legally separate and distinct entity from the City under the Charter of the City, and the City is not financially accountable for the Board, and 2) a "related organization" since the Mayor of the City appoints the Board's governing body, but is not financially accountable. However, the City has elected to include the Board's financial statements in the City's general purpose financial statements as a component unit enterprise fund because, in the City's opinion, the nature and significance of the Board's relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

As required by generally accepted accounting principles, the Board's financial statements present the Board and its component units. The Board's interest in the component unit discussed below is blended with the Board's reporting entity because of the significance of its operational or financial relationship with the Board.

The Denver Capital Leasing Corporation ("DCLC") was organized by the City as a nonprofit corporation in accordance with state law to facilitate financing of certain capital projects for the City and the Board. DCLC is governed by a three-member board appointed by the Mayor, and is reported as a component unit of the City. It is similar to an "undivided interest," an ownership arrangement in which two or more parties own property in which title is held individually to the extent of each party's interest, each party is liable for specific, identifiable obligations, and borrowing is done individually. Each party reports its own assets, liabilities, revenues, and expenses.

DCLC entered into a Master Lease Purchase Agreement ("MLPA") with the Board pursuant to which the Board leases from DCLC certain facilities. The facilities are constructed by the Board with proceeds from the issuance and sale of Certificates of Participation ("Certificates"), evidencing assignments of proportionate interests in rights to receive certain revenue of the Board under its MLPA with DCLC. The Certificates are payable solely from the Board's lease payments under the MLPA. DCLC has no obligation to make any payment on the Certificates. As the Board effectively has assumed substantially all of the risks and rewards of ownership, the Board accounts for the leased assets and related lease obligations as its own assets and its own debt (see Note 4).

The Board's trustee single-employer defined benefit pension plan ("Plan") is part of the Board's entity but has been excluded for financial reporting purposes because of the following provision of the Plan (see Note 8):

The Plan and the Retirement Trust Fund created by the Plan were established and shall be maintained for the exclusive benefit of the eligible Employees of the Board and their Beneficiaries. No part of the Retirement Trust Fund can ever revert to the Board or be used for or diverted to purposes other than the exclusive benefit of the Employees of the Board and their Beneficiaries or the payment of expenses of the Plan.

Separate audited financial statements are available for the Plan.

NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 1997 and 1996

Basis of Accounting

The Board's financial statements are accounted for on the flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the balance sheet, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

Accounting Standards

The Board applies all applicable pronouncements of the GASB as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board ("FASB"), Opinions of the Accounting Principles Board, and Accounting Research Bulletins of the Committee on Accounting Procedure of the American Institute of Certified Public Accountants. In accordance with GASB Statement No. 20, the Board has elected not to apply FASB pronouncements issued after November 30, 1989.

Statements of Cash Flows

The definition of cash for purposes of the statements of cash flows is cash on hand and equity in treasurer's cash which represents cash on deposit with the City Treasurer in the Water Works Fund. Treasurer's cash is available for immediate withdrawal upon request by the Board.

Materials and Supplies Inventory

Materials and supplies inventory is valued at weighted average cost, which approximates market.

Property, Plant and Equipment

Purchased and constructed property, plant and equipment ("PP&E") are recorded at cost. Donated PP&E are recorded at their estimated fair market value on the date received.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective depreciable or amortizable asset classes as follows:

Buildings and improvements	10 - 80 years
Motor vehicles and motorized equipment	7 - 50 years
Furniture, machinery and equipment	5 - 20 years

Depreciation and amortization for the years ended December 31, 1997 and 1996 were as follows (amounts expressed in thousands):

NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 1997 and 1996

	<u>Years Ended December 31,</u>	
	<u>1997</u>	<u>1996</u>
Operating expenses, water service	\$ 21,047	\$ 21,047
Nonoperating expenses	99	92
Other, as allocated	<u>1,769</u>	<u>1,748</u>
Total depreciation and amortization	22,915	22,887
Less: amortization of plant-related studies included in deferred charges	<u>(1,389)</u>	<u>(1,386)</u>
Total depreciation and amortization of property, plant and equipment	<u>\$ 21,526</u>	<u>\$ 21,501</u>

Contributions in aid of construction ("CAC") represent facilities, or cash payments for facilities, received from property owners, governmental agencies and customers who receive benefit from such facilities. System development charges ("SDC") represent fees charged to customers to connect to the water system. Assets acquired through CAC and SDC are included in property, plant and equipment. Depreciation applicable to such assets is computed using the straight-line method over 80 and 60 years for CAC and SDC assets, respectively, and is charged to operations and then closed to the related equity accounts.

Maintenance and repairs are charged to expense as incurred, whereas major betterments are capitalized and depreciated or amortized. At the time of retirement or disposition of depreciable property, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in net income.

Costs of certain engineering, feasibility, environmental and other studies are capitalized until the related projects become operational. When projects become operational, the costs are included in property, plant and equipment and depreciated over the estimated useful life of the asset. In the event the projects do not become operational or the costs do not benefit future projects, such costs are expensed. If the projects become inactive but are not abandoned, the costs are carried as deferred charges and amortized over their estimated useful lives, or until the related projects become operational or abandoned. At December 31, 1997 and 1996, inactive development costs included in deferred charges which, in the Board's opinion, will be used in connection with future construction activities, totaled \$19.0 million and \$20.3 million, respectively.

Interest during the construction period is capitalized on major construction projects. Certain applicable general and administrative costs of an overhead nature are also capitalized, and such costs are depreciated over the estimated useful lives of the related assets.

Interest earned on funds received from the issuance of Certificates is netted against capitalized interest for those projects.

Revenue

The Board accrues for estimated unbilled revenues for water provided through the end of each year since the last reading of the meters based on the billing cycle.

NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 1997 and 1996

Rates

Under the City Charter, the Board is empowered to set rates for all of its customers. These rates "...may be sufficient to pay for operation, maintenance, reserves, debt service, additions, extensions, betterments, including those reasonably required for the anticipated growth of the Denver metropolitan area, and to provide for Denver's general welfare...."

On September 19, 1995, the Board approved a rate increase, effective January 1, 1996, which was estimated to increase normalized (weather adjusted) annual revenues by 5.8%.

On October 1, and October 15, 1996, the Board approved rate increases for different customer groups, all effective January 1, 1997, which were collectively estimated to increase normalized annual revenues by 4.5%.

On September 16, 1997, the Board approved a rate increase, effective January 1, 1998, which is estimated to increase normalized annual revenues by 3.1%.

Employee Compensated Absences

The Board's policy is to accrue for employee vacation, sick leave and other compensated absences when the employee vests in such benefits. Nonvested sick leave is expensed when paid.

Early Implementation of GASB Statement No. 27

The Board has implemented GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," in 1995, in advance of the 1998 implementation date established by the GASB. The implementation affects the disclosure in Note 8, "Defined Benefit Pension Plan." It does not affect the balance sheets, statements of revenues, expenses and changes in retained earnings, or statements of cash flows.

Implementation of GASB Statement No. 32

The Board has implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" in 1997 (see Note 6).

Classification of Accounts

Certain amounts in the 1996 Statement of Revenues, Expenses and Changes in Retained Earnings have been reclassified to conform to the current year presentation.

(2) CONTRIBUTIONS IN AID OF CONSTRUCTION AND SYSTEM DEVELOPMENT CHARGES

Changes in CAC and SDC for the years ended December 31, 1997 and 1996 were as follows (amounts expressed in thousands):

NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 1997 and 1996

	CAC	SDC
Balance, December 31, 1995	\$ 136,064	\$ 206,601
Additions	6,740	15,122
Current year's depreciation expense	(2,010)	(4,147)
Balance, December 31, 1996	140,794	217,576
Additions	15,015	26,485
Current year's depreciation expense	(2,094)	(4,389)
Balance, December 31, 1997	<u>\$ 153,715</u>	<u>\$ 239,672</u>

(3) CASH AND TEMPORARY CASH INVESTMENTS

Colorado statutes and the City Charter authorize the Board to expend funds for the operation of the Board, including the purchase of investments. The Board has an investment policy that allows for the following investments:

- U.S. Government direct obligations and unconditionally guaranteed federal agency securities
- Other federal agency securities
- Repurchase agreements
- Banker's acceptances
- Commercial paper
- Money market mutual funds

The Board's investments are categorized to give an indication of the level of custodial credit risk assumed by the Board at year-end. Under the criteria of GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements," Category 1 includes investments which are insured or registered or held by the Board or its agent in the Board's name; Category 2 includes investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Board's name; and Category 3 includes investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Board's name.

The Board's restricted and unrestricted investments at December 31, 1997, at cost and market value, consisted of the following (amounts expressed in thousands):

NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 1997 and 1996

	Carrying Amount and Market Value
U.S. Government and Agency Securities	\$ 112,222
Commercial Paper	23,875
Total Category 1	136,097
Money Market Mutual Funds (Not Categorized)	7,544
	<u>\$ 143,641</u>

The Board's bank balances are also categorized to give an indication of the level of custodial credit risk assumed by the Board at year-end. Under the criteria of GASB Statement No. 3, Category 1 includes bank balances which are insured or collateralized with securities held by the Board or its agent in the Board's name; Category 2 includes bank balances which are collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name; and Category 3 includes bank balances which are uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Board's name).

The carrying amount of cash at December 31, 1997, was \$91,000, and the bank balances totaled \$617,000. Of the total of bank balances, \$100,000 was insured by federal depository insurance (Category 1), and the remainder was collateralized with securities held by banks in their trust departments pursuant to the Colorado Public Deposit Protection Act, and as such, are classified as Category 2.

(4) CERTIFICATES OF PARTICIPATION

The Certificates (see Note 1) were issued pursuant to a Mortgage and Indenture of Trust Agreement between a bank, acting as trustee ("Trustee") and DCLC, pursuant to which DCLC assigned all of its rights, title, and interest under the MLPA to the Trustee. The MLPA is subject to termination on an annual basis by the Board, upon which any outstanding Certificates will be payable solely from funds held by the Trustee and any amounts made available by the Trustee's sublease or sale of the leased assets under the MLPA.

Certificates were first issued in 1987 to finance the construction of pretreatment facilities for the Marston Treatment Plant. The Certificates were issued in the amount of \$28,185,000, to be retired over a 20-year period at an average interest rate of 7.82%. The pretreatment facilities were completed in 1989.

In 1991, additional Certificates were issued in the amount of \$58,930,000 to provide the Board with financing for the construction of improvements to the Moffat Treatment Plant, the construction of the 64th Avenue Pump Station, and to advance refund \$20,735,000 of the 1987 Certificates. The 1991 Certificates are to be retired over a 20-year period at an average interest rate of 6.70%.

The partial advance refunding of the 1987 Certificates resulted in a difference between the reacquisition price and the net carrying amount of the old debt ("deferred amount on refunding") of \$1,861,000. This difference, reported as a deduction from the Certificates, was amortized as a component of interest expense through May 1997, when the remaining 1987 Certificates were paid off.

NOTES TO FINANCIAL STATEMENTS (Continued)
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The MLPA, as amended, requires a reserve fund be established from proceeds from the sale of the Certificates. The reserve fund is to be used in the event the Board fails to make payment of any base rental payments or other payments and fees defined in the MLPA. At December 31, 1997 and 1996, Restricted Investments included restricted reserve fund investments of \$5,958,000 and \$6,109,000, respectively. At the end of the lease term, the reserve fund and any related interest will be returned to the Board.

A summary of debt maturity for the Certificates as of December 31, 1997, is as follows (amounts expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Year of Maturity:</u>			
Current:	<u>\$ 2,270</u>	<u>\$ 3,489</u>	<u>\$ 5,759</u>
Long-term:			
1999	2,395	3,353	5,748
2000	2,535	3,209	5,744
2001	2,685	3,057	5,742
2002	2,845	2,893	5,738
After 2002	<u>41,295</u>	<u>16,203</u>	<u>57,498</u>
	51,755	28,715	80,470
Less discount	<u>(410)</u>	<u>-</u>	<u>(410)</u>
Total long-term	<u>51,345</u>	<u>28,715</u>	<u>80,060</u>
	<u><u>\$ 53,615</u></u>	<u><u>\$ 32,204</u></u>	<u><u>\$ 85,819</u></u>

The Certificates are also collateralized by certain assets purchased and/or constructed under the MLPA. The related net book value of the assets that collateralize the Certificates at December 31, 1997 is as follows (amounts expressed in thousands):

Restricted investments	\$ 5,958
Utility plant in service	75,553
Less-accumulated depreciation	<u>(10,067)</u>
	<u><u>\$ 71,444</u></u>

(5) PROPERTY UNDER CAPITAL LEASE

On July 21, 1992, the Board entered into an agreement amending the lease agreement of March 3, 1987 with the Colorado River Water Conservation District ("District") whereby the District was required to construct Ritschard Dam and Wolford Mountain Reservoir ("Wolford") on Muddy Creek, a tributary of the Colorado River north of Kremmling, Colorado. In consideration of quarterly and semiannual lease payments for 27 years beginning after issuance of a notice of award for construction and payments of 40% of the annual operating costs of Wolford beginning after the end of the lease term, the District will convey to the Board at the end of the lease term ownership, use, and control of 40% of the storage capacity of Wolford and 40% of the water right. The present value of the minimum lease payments at the beginning of the lease term, including a \$2.4 million nonrefundable deposit, was \$43 million, and the Board recorded an asset and obligation under capital lease of that amount. The project was completed in the fall of 1995.

NOTES TO FINANCIAL STATEMENTS (Continued)
Years Ended December 31, 1997 and 1996

Minimum capital lease payments during 1997 totaled \$3,000,000. The following is a schedule by year of future minimum lease payments, together with the present value of the minimum lease payments as of December 31, 1997 (amounts expressed in thousands):

<u>Year Ending December 31:</u>	
1998	\$ 3,000
1999	3,000
2000	3,000
2001	3,000
2002	3,000
After 2002	<u>52,500</u>
Total minimum lease payments	67,500
Less interest at 6.75%	<u>(33,035)</u>
Present value of minimum lease payments (obligation under capital lease)	34,465
Less current portion	<u>(685)</u>
	<u><u>\$ 33,780</u></u>

(6) DEFERRED COMPENSATION PLAN

The Board has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or qualifying unforeseeable emergency. Participation in the plan is voluntary. The Board does not make any contributions. The Board has no liability for losses under the plan but does have the usual fiduciary responsibilities of a plan sponsor.

Prior to January 1, 1997, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights ("plan assets") were (until paid or made available to the employee or other beneficiary) solely the property and rights of the Board (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Board's general creditors. Participants' rights under the plan were equal to those of general creditors of the Board in an amount equal to the fair market value of the deferred account for each participant.

Effective January 1, 1997, Internal Revenue Code Section 457 was amended to require all plan assets to be held in qualified trust, custodial account, or annuity contract for the benefit of participants and their beneficiaries. To meet these requirements, non-annuity plan assets were transferred to a bank custodial account for the benefit of participants and their beneficiaries, and are therefore no longer considered property of the Board and cannot be used to satisfy creditor claims. In accordance with GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," the deferred compensation assets and associated liabilities were removed from the 1997 balance sheet.

NOTES TO FINANCIAL STATEMENTS (Continued)
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(7) BONDS PAYABLE

Bonds payable consists of general obligation water improvement and refunding bonds of the City. The Board is committed to repay the bonds and related interest from its revenues. Interest rates for the bonds outstanding at December 31, 1997, range from 1.0% to 9.0%. The average interest rate on all outstanding bonds was 5.56% for the years ended December 31, 1997 and 1996. A summary of debt maturity for the bonds as of December 31, 1997, is as follows (amounts expressed in thousands):

<u>Year of Maturity:</u>	
Current:	\$ 18,685
Long-term:	
1999	18,255
2000	16,250
2001	13,500
2002	12,890
After 2002	163,625
	224,520
Plus premium, net of discount	7
Less deferred amount on refunding	(1,826)
	222,701
Total long-term	222,701
	<u>\$ 241,386</u>

In prior years, the Board defeased certain City General Obligation bonds in order to reduce its total debt service payments and to obtain an economic gain (difference between the present values of the old and new debt service payments) by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements. The advance refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt, the "deferred amount on refunding." This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized as a component of interest expense. At December 31, 1997, \$29,080,000 of bonds outstanding are considered defeased.

(8) DEFINED BENEFIT PENSION PLAN

Plan Description

The Board sponsors and administers a trustee, single-employer defined benefit pension plan, the Employees' Retirement Plan of the Denver Board of Water Commissioners ("Plan"). The Plan provides retirement benefits with limited annual cost-of-living adjustments to substantially all regular full-time employees of the Board and their beneficiaries. It also provides retirement benefits in the event of total and permanent disability, and a \$5,000 death benefit. Article IV, Chapter C4.19 of the Charter of the City and County of Denver, Colorado assigns the authority to establish and amend benefit provisions to the Board; however, any amendment which substantially impairs the property rights of employees will not become effective until approved by two-thirds of the employees. The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to: Director of Finance, Denver Water, 1600 West 12th Avenue, Denver, CO 80254.

NOTES TO FINANCIAL STATEMENTS (Continued)
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Funding Policy

The Contribution requirements of plan members and the Board are established and may be amended by the Board, which acts as trustee of the Plan. The Plan's funding policy provides for periodic Board contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due. These required contributions may vary and are not expressed in terms of fixed dollar amounts or as percentages of annual covered payroll. Plan members are not required to make contributions, but may elect to make voluntary after-tax contributions to the Plan for the purpose of purchasing an additional monthly benefit. The additional benefit is in the form of a monthly annuity with no cost of living adjustment. The Board intends to continue making annual contributions to the Plan based on current annual actuarial valuations, but reserves the right to suspend, reduce or permanently discontinue all contributions at any time, pursuant to the termination provisions of the Plan.

Annual Pension Cost

The Board's annual pension cost for 1997 was \$5,044,620, equal to the Board's required and actual contributions. The required contribution was determined as part of the January 1, 1997 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 5.0% to 12.2% per year, and (c) 5% per year cost-of-living adjustments for members terminating or retiring before September 1, 1995, and 4.4% per year for members terminating or retiring on or after September 1, 1995. Salary increases include an inflation component of 5.0%. The actuarial value of Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The Plan's unfunded actuarial accrued liability is being amortized in level dollar amounts on a closed basis. The remaining amortization period at January 1, 1997 was 28 years.

Trend Information

Three-year trend information for the Board's pension cost and contributions is as follows (amounts expressed in thousands):

<u>Year</u>	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
1995	\$ 6,047	100%	\$ -
1996	\$ 5,857	100%	\$ -
1997	\$ 5,044	100%	\$ -

A Schedule of Funding Progress for the Plan is as follows (amounts expressed in thousands):

<u>Actuarial Valuation Date</u>	<u>Value of Assets (a)</u>	<u>Liability (AAL) -- Entry Age (b)</u>	<u>AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Percentage of Covered Payroll [(b-a)/c]</u>
1/1/95	\$ 97,599	\$ 129,051	\$ 31,452	75.6%	\$41,573	75.7%
1/1/96	\$110,713	\$ 137,877	\$ 27,164	80.3%	\$41,182	66.0%
1/1/97	\$124,913	\$ 145,404	\$ 20,491	85.9%	\$42,142	48.6%

(9) RISK MANAGEMENT

The Board is exposed to various risks of losses including general liability (limited under the Colorado Governmental Immunity Act to \$150,000 per person and \$600,000 per occurrence), property damage, and employee life, medical, dental, and accident benefits. The Board has a risk management program that includes self-insurance for liability and selective property damage, and self-insurance for employee medical and dental benefits through a commercial claims servicer. The

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Board carries commercial property insurance for catastrophic losses, including floods and earthquakes, for four major facilities: the Westside Complex, Marston Treatment Plant and Lab, Moffat Treatment Plant, and the Foothills Water Treatment Plant. The Board also carries commercial insurance for employee life, accident, and workers' compensation. Employee life and workers' compensation insurance are under retrospectively rated policies whereby the initial premiums are adjusted based on actual experience during the period of coverage. Settled claims have not exceeded commercial insurance coverage in any of the past three years.

Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Premiums on retrospectively rated policies are accrued based on the ultimate cost of the experience to date. These losses include an estimate of claims that have been incurred but not reported. At December 31, 1997, claims liabilities consisting of workers' compensation, medical and dental benefits, and employee life insurance were \$1,389,000. Changes in the balances of these liabilities during 1996 and 1997 were as follows (amounts expressed in thousands):

	Beginning- of-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Year-End
1996	\$ 2,276	\$ 4,203	\$ (5,118)	\$ 1,361
1997	\$ 1,361	\$ 4,364	\$ (4,336)	\$ 1,389

The Board has designated \$4 million of its investments as available for claims covered by self-insurance.

(10) POSTRETIREMENT BENEFITS

As part of the retirement program revisions instituted in 1995, the Board, under authority of the City Charter, established a postretirement health care benefit in the form of a \$125 fixed monthly subsidy for medical, dental, or vision insurance coverage obtained through the Board's health plan to all employees taking early retirement. The subsidy begins with the first pension payment and continues until the retiree reaches age 65 or until pension payments cease, whichever is earlier. The subsidy is not written in the retirement plan or paid out of retirement plan funds and can only be used each month to offset part or all of that month's cost of insurance coverage. Currently, 51 retirees are eligible to receive this benefit. Expenses of this program are recognized as incurred, which amounted to \$59,000 and \$36,000 during 1997 and 1996, respectively.

(11) SOUTH ADAMS COUNTY WATER AND SANITATION DISTRICT ("SACWSD") SYSTEM DEVELOPMENT CHARGES

On December 23, 1997, the Board and SACWSD entered into a Memorandum of Understanding ("MOU") whereby the Board will supply 4,000 acre-feet of treated water annually to SACWSD, beginning on or before October 1, 2004, for which SACWSD paid \$22,920,000. The MOU is contingent upon SACWSD's acquiring, developing, and conveying to the Board storage facilities for 8,000 acre-feet of water along the South Platte River downstream of Denver, and total costs under the MOU not exceeding \$46 million. If the contingency is not met, SACWSD may, at its discretion, terminate the MOU, and the Board will reimburse the \$22,920,000 payment. The Board recorded the payment in Restricted Investments and Customer Advances for Construction. When the contingency is no longer in effect, the \$22,920,000 will be removed from Restricted Investments and transferred from Customer Advances for Construction to System Development Charges.

NOTES TO FINANCIAL STATEMENTS (Continued)
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(12) YEAR 2000 (Unaudited)

The Board utilizes software and related technologies within its business processes that may be impacted by the year 2000 issue. The year 2000 issue exists because many computer systems and applications currently use two digit date fields to designate a year. Date sensitive systems may recognize the year 2000 as 1900, or not at all. This inability to properly treat the year 2000 could cause systems to process critical financial and operational information incorrectly.

The Board has completed its initial assessment of all currently used systems and developed a plan to correct the systems that will be affected. The Board continues to evaluate appropriate courses of corrective action, including the replacement of certain systems. In addition, the Board is relying on outside vendors to provide new system upgrades to mitigate the year 2000 issue.

If such modifications and conversions are not completed timely, the year 2000 issue may have a material impact on the operations of the Board. Management does not anticipate these activities will have a material adverse impact on the financial position, results of operations or cash flows of the Board.

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SUPPLEMENTAL INFORMATION

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